

Creating Customer Value and Its Implication To Customer Loyalty: An Empirical Study at Star Hotels in West Java, Indonesia

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Abstract

This paper is an empirical study that presents a comprehensive framework of relationships among customer value and customer loyalty in star hotel. The samples were collected from the guest were staying at 3 (three), 4 (four) and 5 (five) star hotels in West Java-Indonesia. A total of 210 respondents participated in this study and Structural Equation Modeling (SEM) were conducted to test the hypothesis. The test results provide an empirical evidence that the higher customer value will increase customer loyalty at star hotel. Beside, the results indicated that the customer value is a crucial role in the hotel industry and it is expected to be beneficial to the practice of business and hopefully it will also contribute to the development of management science, especially marketing management.

Key Words: *Customer Value, Customer Loyalty, Hotel Industry, Structural Equation Modeling.*

Introduction

The tourism industry sector of Bandung city is significantly influential toward economic growth with a contribution to regional revenue of Bandung city in 2011, penetrating 40% of the total revenue (Kamalia Purbani, Head of Bandung Regional Development Planning Board). Based on the data from West Java Statistical Bureau (2013), there were 1,552 hotel and other accommodations that have been established in West Java. The number of rooms are 43,981 hotel rooms and 72,105 beds. The increasing number of hotels was due to a hospitality entrepreneurs business calculation that estimating the need for new hotels. Unfortunately, this high number of hotel was not accompanied by high occupancy rates.

According to Doddy Gunawan Yusuf, Head of West Java Distribution Statistics (2014), the low occupancy rate is largely due to the intense competition in the hospitality industry. The fact that star hotel rooms are unoccupied is caused by tourists are distributed to new hotels as well as other accommodation establishments as the result of increasing number of construction and operating permits of new hotels around Bandung city and West Bandung Regency. Yana Mulyana Supardjo, Chairman of the Council of Real Estate Indonesia (REI) in bandung.bisnis.com (2014) said, this is even getting worse by the presence of several apartments in Bandung whose room converted as hotel. Intense competition and the low

occupancy rate of the hotel rooms makes the hotel companies need to think about the right strategy to increase the number of visits and the occupancy of hotel rooms.

Danurdara & Hidayah (2016) stated that in the hospitality industry competition now, pricing war, product and service enhance are vital points to be considered in this condition. To reach the maximum performance there are a lot of ideas to be considered such as the marketing activities and also to minimize the imperfection of quality service towards the customer. Danurdara & Hidayah (2016) also said in other way if the company gives a good quality service so that will automatically reduce the possibility of a customer complaint. Moreover, the hotel industry is always related with service, so service quality can be a forecast within customer satisfaction and this will end up with customer loyalty in the company.

According to Gronroos (2011) the success of a company's internal plan, especially related to strategic planning in the field of marketing and services there are 2 (two) devices, namely hardware and software. The next four elements are style, skills, staff, and shared values. All are the "software" is indispensable in providing excellent service experience for customers. According to Schmitt in Kanaidi and Suparno (2010) the ultimate goal of the company, particularly related is consumer loyalty strong to the product and services company with consumer expectations. As this will not only loyal but also disseminate information about the company's products by word of mouth.

Hidayah *et al* (2013) states that customer loyalty means that consumers not only buy back (repeat customers) but as besides buying continuously, they also willingly became an agent for the offer brand to others so that the growth of corporate profits will be achieved by its self. Therefore, customer loyalty to the brand is very important to win the competition. According to Marshall Goldsmith, Founding Director of the Financial Times Knowledge Dialogue and the Alliance for Strategic Leadership in Smith & Wheeler (2005) and Hidayah *et al* (2013), managing the customer experience is an incredibly practical guide for building customer loyalty in the new century. This means that, managing the customer experience is a practical way to build customer loyalty to the brand of a company or any bid.

Customer loyalty shows a situation where the customer has persisted for consciousness in relation to the company and to use or purchase products or services of the company. In terms of benefits, according to Griffin in Saputra (2009), customer loyalty can save the company costs in the 6 (six) sectors, namely : (1) reduced marketing costs, (2) Transaction costs are lower as contract negotiation and ordering processes, (3) Reduced costs customer turn over (cost of recruiting new customers), (4) increased cross - selling success where the most important thing is the increased target of the target market (customers), (5) the increased of positive word of mouth and assumptions customers satisfied, and (6) reduction in the cost of failure (decrease in product improvement, customer complaints, etc.)

Customer loyalty is a part of customer behavior, especially in post purchase behavior, and some previous researchers have revealed a relationship between customer value to customer behavior, especially post purchase behavior (Hidayah *et al*, 2013). It can be assumed that customer loyalty can be influenced by customer value. So, it is necessary in this study to be conducted in-depth study about the customer value increase customer loyalty in star hotel in the city of Bandung, Indonesia.

Literature Review

Customer Value

Kotler and Keller (2012) and Soegoto (2010) stated that the value received by customers is the difference between total customer value and total customer cost. Thus the value can be formulated as follows (Kotler and Armstrong, 2010):

$$\text{Customer Value} = \frac{\text{Benefit}}{\text{Cost}} = \frac{\text{Functional Benefit \& Emotional Benefit}}{\text{Monetary Cost + Time Cost + Energy Cost + Psychic Cost}}$$

Products purchased from the company by the buyers are products that offer value to the customer (customer delivered value) the highest. Value for the customer (customer delivered value) is the difference between total customer value and total customer cost. Total customer value is a set of benefits expected by customers of certain product or service. Total customer costs is a set of expected costs incurred by customers to evaluate, acquire, use, and dispose of the product or service. Determinants of value provided to customers as the following figure 1 below.

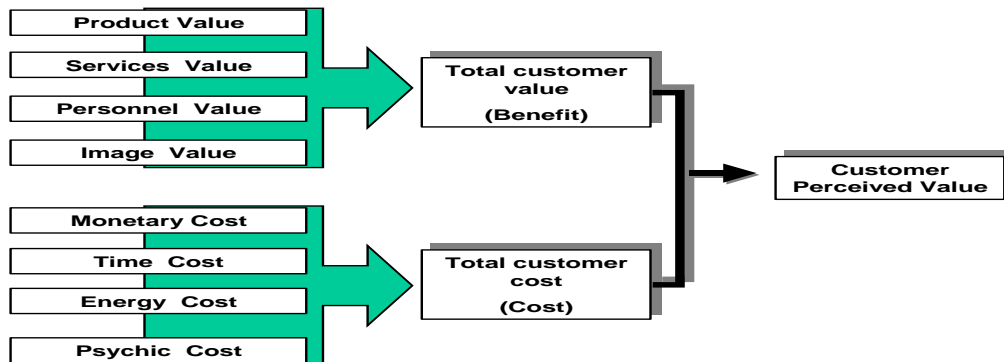


Figure 1. Determinants of Customer Value
Source: Kotler & Armstrong (2010)

Zeithaml *et al* (2009) explains that the perception of value is subjective and individual. Further, they said that the value is all that I get for all that I give. From the statement customers perceive that the value of the overall customer perception on the usefulness of a product essential to what he gave to what he received, although this perception varies, since everyone can have a different perception (some tends to volume, high quality or comfort), while there are some customers that include also the time and effort into the amount of the costs incurred. Zeithaml *et al* (2009) also divide the values into 4 (four) meaning: The value is a low price, value is the quality that is obtained from the price obtained, value is what you want in products and services, value is what is gained from what is given. According to Tjiptono (2008) in Handayani (2010), the dimensions of customer value are emotional value, social value, quality / performance value, and price value for money.

Wahyuningsih (2004) in Handayani (2010) states that the concept of value from a marketing perspective is divided into three groups: customer value as "a function", customer value as "a ratio", and the value of the customer as "a difference ". The three groups are presented in the form of a mathematical equation in table 1 below.

Tabel 1. Value as Ratio

Author, Year	Metodology	The concept of Value in Mathematical Equations
Christopher, 1996	Conseptual	$VALUE = \frac{\text{Perceptions of Benefit}}{\text{Total Cost Ownership}}$
Hesket, Sasser <i>et al</i>	Conseptual	$VALUE = \frac{\text{Result Produced for Customer} + \text{Process Quality}}{\text{Total Cost Ownership}}$
Monroe, 1990	Conseptual	$VALUE = \frac{\text{Benefit}}{\text{Sacrifices}}$
Ravald & Gronroos, 1996	Conseptual	$VALUE = \frac{\text{Episode Benefits} + \text{Relationship Benefits}}{\text{Episode Sacrifices} + \text{Relationship Sacrifices}}$
Reidenbach, Wilson <i>et al</i> , 1995	Conseptual	$VALUE = \frac{\text{Benefits}}{\text{Price}}$

Source: Wahyuningsih (2004) in Handayani (2010)

According to Kotler & Armstrong (2010), total customer value includes all the value derived from the value of the product (product value), the value of the service (service value), the sales personnel (personnel value), and the company's image (image value). The total costs include the price paid (monetary price) by the customer, the cost of time (time cost), the cost of energy expenditure (energy cost), and the cost of psychological (psychic cost).

Customer Loyalty

Danurdara & Hidayah (2016) said that customer loyalty means the customer who make repeat purchases of their current product or services, more willingly than choosing a rival brand instead. Moreover, Danurdara & Hidayah (2016) added that loyal customer is a customer who re-buys product or services from the same service supplier, and who continues to suggest or maintains a positive thought to the service provider.

According to Kandampully and Suhartanto in Susanti (2009) there are several factors that can be identified as important factors that could cause consumers to be loyal. It can be seen through figure 2 below.

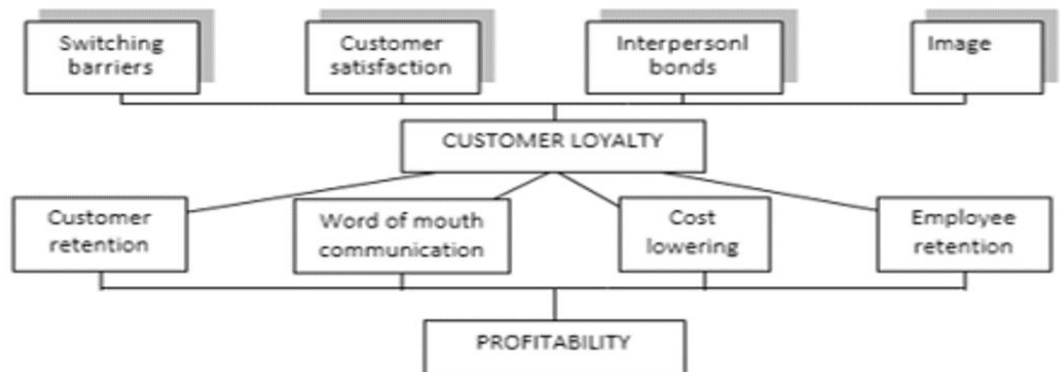


Figure 2. The Point Factors of Customer Loyalty
Source: Kandampully & Suhartanto in Susanti (2009)

According to Griffin in Saputra (2009), loyalty can save the company costs in the 6 (six) sectors:

1. Reduced marketing costs,
2. Transaction costs are lower as contract negotiation and ordering processes,
3. Reduced customer's costs turn over,
4. Increasing cross-selling success where the most important thing is the increasing of target market (customers),
5. Increasing positive word of mouth and the assumption of satisfied customers,
6. Reduced the cost of failure (decrease in product improvement, customer complaints, etc.)

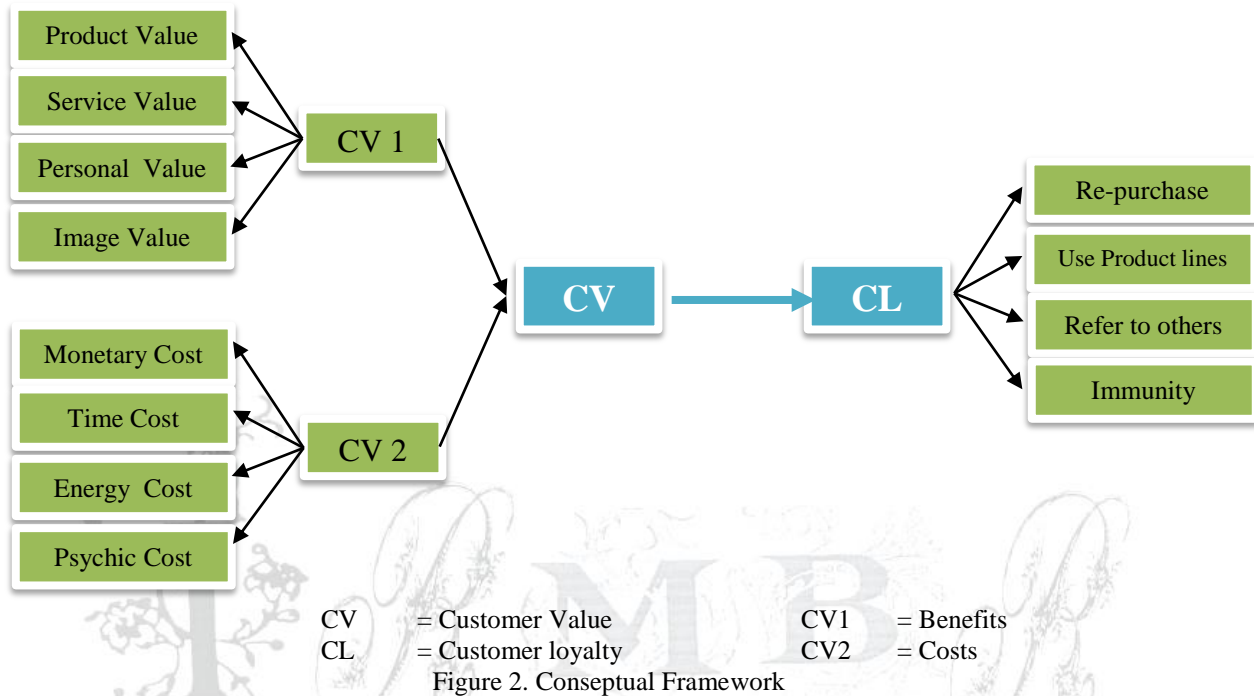
Bowen & Shoemaker in Kanaidi and Suparno (2010) states that the dimension of customer loyalty is divided into two dimensions of behavior and attitudes dimension. Different from the attitude of satisfaction, loyalty can be defined by the behavior of buyers. Griffin (2005) explains that indicator of customer loyalty as follows:

- a. Re-purchase
- b. Buying between product lines and services
- c. Refer to others

d. Immunity against competitors

Conceptual Framework

The conceptual framework of the study is intended to illustrate how the relationship between the study variables based on theory and previous studies experts. Conceptual framework models the relationship between variables in this fieldwork can be presented in figure 2 below.



Research Hypotheses

Based on the description of the background, the formulation of the problem, and conceptual framework on the above, the hypotheses of this study is “Customer Value influence simultaneously toward Customer Loyalty of stars hotel”.

Research Methods

Research Design

The method used in this research is survey method with descriptive approach to answer the research objectives concerning customer assessment of the application of customer value and customer loyalty at stars hotel in city of Bandung and West Bandung Regency province which is carried out through data collection in the field from the respondents with a certain number of samples. Especially to answer the purpose of research on the influence of experiential marketing and customer relationship marketing towards customer value in stars hotel in city of Bandung and West Bandung Regency province carried out using the verification method approach. This study was a causal type design, which is to identify the cause and effect relationship between variables and researchers are looking for the real type of facts to help understand and predict relationships (Zikmund in Sembiring, 2009). The problem presented in this study is a problem that is recommended by the previous investigators, who need support for the latest facts.

Data Analysis

The selection of analytical techniques *Structural Equation Modeling* (SEM) based on the consideration that SEM has the ability to combine measurement models and structural models simultaneously and efficiently when compared with the technique of another multivariate analysis (Hair *et al*, 1998). Measurement models are used to determine the size of a construct that is latent variable. The assumptions to apply this techniques including absence of multicollinearity, outliers, as well as the presence of homogeneity, linearity, and normality have been met.

Population & Sample

The population in this study is the hotel customers or guest that have used and who was a hotel room occupants of 3, 4, and 5 stars hotel in the West Java Province. Because the population is infinite, this study using accidental or convenience sampling method. A total of 210 respondents were participated in this study, and its have been qualified for SEM requirement, because according Ghozali (2011), SEM analysis by using Maximum Likelihood (ML) estimation will be effective on the number of samples between 150-400.

Analysis of Results

Measurement Model

The purpose of measurement model is to build the relationship between measurement indices and latent variables by using confirmatory factor analysis (CFA) to test model validity, and it also considers measuring errors. Therefore, this study will calculate individual variance rate (R²), which acts as an indicator to evaluate whether measurement variables are consistent to the latent variable (Bollen, 1989 in Hidayah *et al*, 2013). All the factor loadings were between 0.775 and 0.841, which is greater than the suggested value 0.50 (Hair, *et al*, 1998), so the results showed a consistency to the latent variable.

Table 2. Construct Validity

Research Construct	Variable Manifest	Loading Factors
Customer Value	X1: Benefits	0.811
	X2: Cost	0.841
Customer Loyalty	Y1: Re-purchase	0.775
	Y2: Use product lines	0.814
	Y3: Refers to others	0.796
	Y:4 Immunity	0.785

To verify whether a measurement model has a goodness of fit, one can judge its value of construct reliability (CR) and average variance extracted (VE). Wijanto (2008) suggested that if CR is higher than 0.7, it means that the measurement model has a goodness of fit. All of CR in this study is all above 0.8 that shows goodness of fit in the measurement model. On the other hand, average VE of the latent variables can explain the ratio of indices variance, the higher of VE value, the better of convergent validity and discriminant validity to the model. Wijanto (2008) suggested that a good VE value has to be same or greater than 0.50. Most of VE values are higher than 0.50, Therefore the model has a good reliability.

Table 3. Construct Reliability

Research Construct	CR	VE	Reliability
Customer Value	0,811	0,683	Reliable
Customer Loyalty	0,871	0,628	Reliable

Structural Model

Structural model is to test whether the built up theoretical relationship is supported by data. Hair, *et al* (1998) categorized overall model fit into three indices: absolute fit measures, incremental fit measures, and parsimonious fit measures. After comparing all fit indices with their corresponding recommended values (see Table 4), the results showed the model has a goodness of fit.

Table 4. Fit Indices for Structural Model Fit

Fit Indices	Result
Root Mean Square Error of Approximation (RMSEA)	0,074
Goodness of Fit Index (GFI)	0,845
Adjusted Goodness of Fit Indices (AGFI)	0,178
Normed Fit Index (NFI)	0,943
Comparative Fit Index (CFI)	0,988
Incremental Fit Index (IFI)	0,988
Standardized Root Mean Square Residual (SRMR)	0,0555

Structural model to test hypotheses based on the estimated value of the variable influence between customer value and customer loyalty can be seen in Figure 3 below.

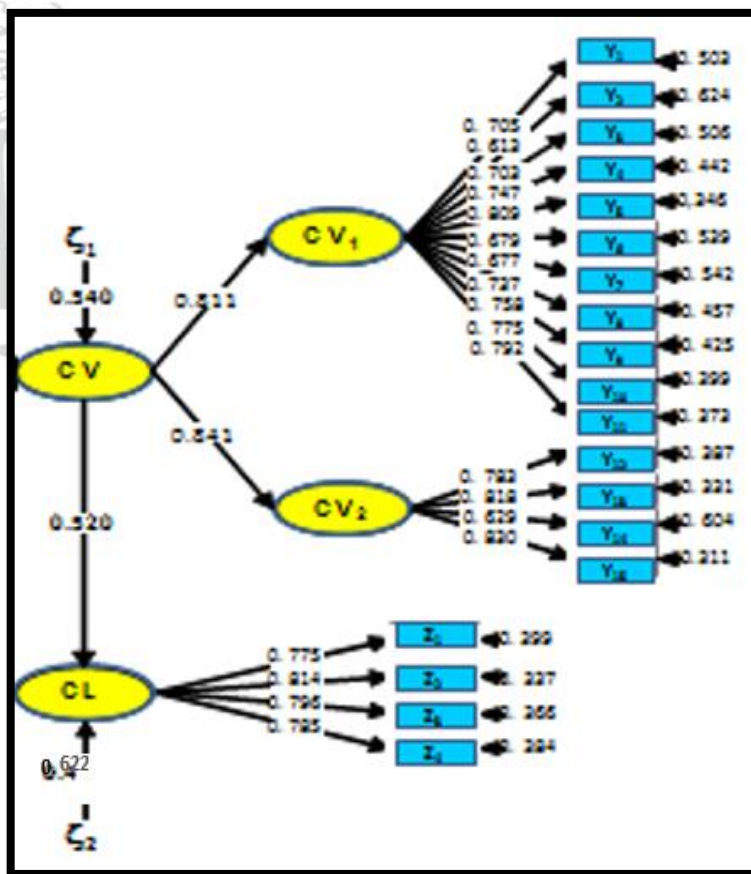


Figure 3. Structural Model

Verification of Research Result

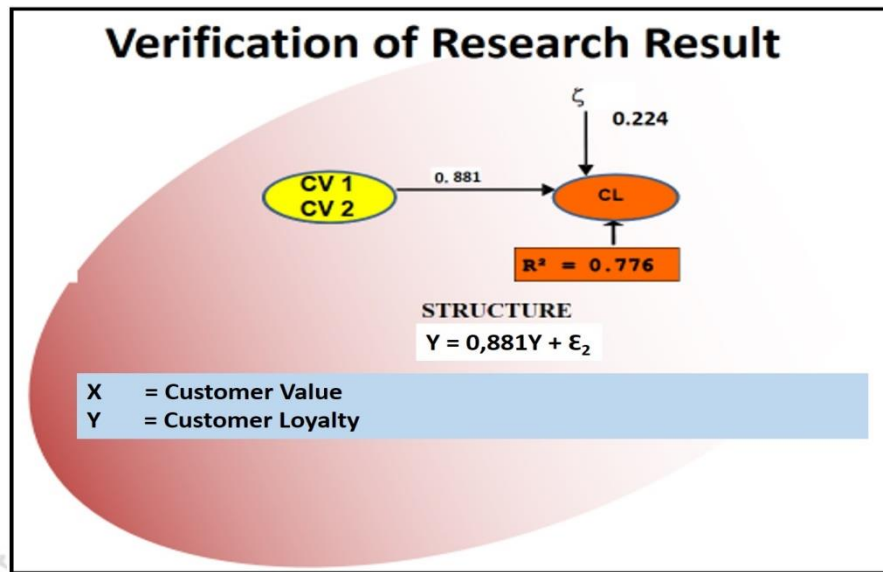


Figure 4. Verification of Research Result

Structural model portrait of the relationship and influence between customer value on customer loyalty, which is expressed in the following hypotheses: “that the customer value significantly influence on customer loyalty”. Based on the results of data processing program (LISREL), in accordance with the proposed hypotheses is as follows:

$$CL = 0.881 X CV, \text{Errorvar.} = 0.224, R^2 = 0.776$$

Based on the equation above can be explained that there is a variable degree of contribution of customer value on customer loyalty that the magnitude is 0.881. So that, the higher of customer value, it will contribute to customer loyalty at 0.881.

The results of data processing also showed that the value of R2 to the above equation is 0.776, this portrait showed that customer loyalty is influenced by customer value. This value also indicates that there are still other factors that affect customer loyalty beyond customer value factors addressed by the error variance, amounting to 0.224.

The calculation result obtained shows that customer loyalty is influenced by customer value. This indicates that customer loyalty will happen if the company has a product or service that could increase customer value. With a good customer value or higher then it will increase customer loyalty. So customers who already loyal when there is an activity would always recommend the hotel to partners or relatives.

Discussion

Based on the above it can be stated that the value of customers consisting of the dimensions, the total benefits and total costs before the estimated or seen from the theoretical effect on customer loyalty. Based on the results of data processing are derived from 210 guest of star hotels that can be seen the estimated coefficient of determination (R2), the largest on the latent variable customer value declared by the dimensions of cost. These results indicate that the cost dimension is stronger in dimension which reflects the customer value than benefit.

Through testing by using SEM found that customers value effect on customer loyalty star hotels. These test results provide an empirical evidence that the higher value of the customer will increase customer loyalty at star hotels. The influence of customer value on customer loyalty was 77.6 percent with a positive direction, meaning that 77.6 percent of change in customer loyalty star hotel in the West Java Province could be explained or be caused by customer value.

Thus it can be stated that the value of customers consisting of the dimensions, the total benefits and total costs, both before and after the estimation of the estimated or seen from the empirical and theoretical, effect on customer loyalty.

Based on the hypotheses testing results show that the variable of customer value will effect on customer loyalty. The results of data processing by using SEM found that the total customer value variable will influence on customer loyalty in star hotels amounting to 77.6 percent.

The variable effect of customer value on customer loyalty star hotels was caused by:

1. Submission of the services performed by the hotel in the West Java Province already fast.
2. The parking lot of the hotel in the West Java Province is sufficient.
3. Hospitality officer star hotel in the West Java Province in the service, becoming one of the supporters of the customer loyalty as well as their customers' willingness to refer the hotel to others.
4. Officers star hotel in the West Java Province in providing services has been rapid.
5. The Services in star hotel in the West Java Province already boast.
6. The majority of customers stated that the rates charged star hotel in the West Java Province able to save costs for the customer.
7. The Services in star hotel in the West Java Province able to save energy customers to get service

The results are consistent with Soegoto's (2011) research who states that the value of the customer (customer value) has a positive influence on the increase in customer loyalty priority. This is confirmed by the opinion of the Kusmayadi (2010) which states that loyalty will be greater have when consumer perception of confidence in the service provider.

Harniza (2011) found that the dimensions of the variable value of customer value is based on the test of significance partially and simultaneously contribute to a high influence on the formation of customer loyalty. Likewise, with the opinion of Isnadi (2010) states that "loyalty is to describe the consumer's commitment to re-purchase of the company's products (goods and services) is desired consistently in the future. The loyalty of consumers who actually will be created when the consumer has become part of the advocate to the company without compensation for services".

Conclusion

1. The application of customer value carried by the star hotel in the West Java Province overall perceived by customers are included in the category is not very good to the good. The dimensions of customer value that has been executed 'well' according to the customer is the total benefits. However, the dimensions of the total cost is 'the lowest' rated by customer that the rates charged by the hotel is 'quite able' to save costs for the customer, the service of the hotel is 'quite' able to save customers time, and the mechanism of the process of hotel services 'well enough' informed to the customer.
2. The application of customer value undertaken by the hotel in the West Java Province overall perceived customer, included in the category is 'not very good to good'. The dimensions of customer value that has been executed well according to the customer is 'the total administration of benefits'. However, the dimensions of the total cost is 'the lowest' rated by customer that the rates charged by the hotel is

'quite' able to save costs for the customer, the service of the hotel is 'quite able' to save customers time, and the mechanism of the process of hotel services 'well enough' informed to the customer.

3. The application of customer value undertaken in star hotel in the West Java Province overall perceived by customers are included in the category is 'not very good to good'. The dimensions of customer value that has been executed 'well' according to the customer is the provision of total benefits. However, the dimensions of the total cost is 'the lowest' rated by customer that the rates charged by the hotel is 'quite able' to save costs for the customer, the service given by the hotel is 'quite able' to save customers time, and the mechanism of the process of hotel services well enough informed to the customer.
4. Loyalty customers who use the services of star hotel in the West Java Province perceived new customers included in the category of 'not good to good'. Where the dimensions of the most powerful influence is to use various hotel services (in addition to the room) and the lowest is 'to use the hotel room and the rejection of the bids of competitors'. Given customers rarely stay at the hotel, rarely use various hotel services (in addition to the room), and also rarely recommend the services to the hotel / others. For the characteristics of customer loyalty from repeat customers, clients, advocates, through partners, found that repeat customers as much as 99.71 percent, 80.38 percent clients, members 61.05 percent, 10.36 percent advocates, and partners only 1, 33 percent.
4. Customer value effect on customer loyalty star hotel in the West Java Province at 77.61%. The dimensions of customer value are the most powerful influence is the dimension Cost (CV2).

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